

ACCOUNTANCY

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PROFESSIONAL NOTES

The Examination of National Expenditure

"The nation's accounts are kept on 'the penny note-book system. . . . No department can render an account of its expenditure because no department fully knows it. . . . The House has been successful in setting up machinery capable of securing that money is spent only upon the objects for which it was voted, but has not succeeded in devising satisfactory permanent machinery to secure due economy in that expenditure." These are some of the criticisms contained in the eleventh report of 1943-44 by the Select Committee on National Expenditure (H.M. Stationery Office, 4d. net). The report includes an interesting historical retrospect : aspects of public income and expenditure have been examined by a succession of Select Committees since the early decades of the nineteenth century. The present Committee asks to be reappointed in the new Session, and that its terms of reference be no longer restricted to "current" expenditure for "services directly connected with the war." It also recommends an inquiry into the means of securing the most effective examination and control by Parliament of public expenditure. This duty, it is suggested, should be entrusted to a Select Committee specially appointed for the purpose, rather than to a body actually engaged in the examination of expenditure.

Statutes and the Intentions of Parliament

The relationship between statute law and common or customary law was discussed by the Lord Chancellor, Lord Simon, who proposed the toast of the Society of Comparative Legislation at its jubilee luncheon on December 18. Lord Simon pointed out that in England and Scotland a judge must construe the words of a statute without any historic or extra-statutory explanation : he must not know what was said in debates on the Bill. He wondered whether that was the best and most scientific system possible. Emphasizing that what he said was a private speculation, and not even a fixed expression of his own views, Lord Simon suggested that possibly at the beginning of each Parliament a committee of senior members of both Houses might be appointed, with an admixture of lawyers, to draw up a short introductory statement on any considerable or complicated Bill. This document would explain the purpose and intended effect of the measure, and would be printed with the text—not as having equal authority, but, like the Apocrypha, for edification rather than for literal inspiration. The citizen and the judge might then read the explanation, giving it such weight as they thought proper, so that the intentions of Parliament should not be entirely unknown and disregarded. Lord Macmillan, Chair-

man of the Society, in reply, said the Society's true object was to maintain the rule of law throughout the world, where justice was one, and the greatest service it could do was to bring about the unification of the law. A universal system of law would eliminate many causes of friction and misunderstanding between the nations.

The Treasury on Costing

The Treasury has replied to various criticisms of the Select Committee on National Expenditure, in the form of a memorandum which was issued as a White Paper. One of the Committee's criticisms was of lack of uniformity in the purchasing and controlling of war stores, but the Treasury holds that this is neither so great as might be supposed, nor is it entirely attributable to factors within the control of Departments. With regard to prices, the memorandum stresses that "the Department have been ready to take risks as regards the securing of fixed prices because they realise the advantages both in money, and in more intangible respects, of those prices." Another familiar criticism, of special interest to accountants, is the contention that cost investigations have been confined too much to the mere ascertainment of costs and too little to the promotion of economy. The Treasury reply to this is that the Committee has under-rated the use made of cost accounting reports as a means of securing economy and has at the same time over-rated the possibilities in this direction. Some critics have suggested that, given the existence of the Excess Profits Tax to absorb excessive earnings, less attention need be given to the detailed costing of individual contracts. To this the Treasury quite reasonably replies that the purposes of E.P.T. and of price rebates are quite different. Especially in cases where the capital employed has increased very substantially since the E.P.T. base years, it must be agreed that E.P.T. alone would not sufficiently restrict the profit margin per unit of output. Finally, the Treasury rejects the suggestion made by the Committee that the Treasury should have power to direct how the various Supply Departments should proceed.

Pension Funds

We have received the report and accounts for 1943 of the Association of Superannuation and Pension Funds. The Association has reached its twenty-first anniversary, as it was constituted in 1923 from the Conference of Superannuation Funds: the report accordingly opens with a retrospect recording its principal achievements. These relate mainly to taxation. Material advantages had been secured by the Conference in 1921 in the income tax position of superannuation funds approved by the Inland Revenue. The Association has obtained an extension of approval to widows' and dependants' funds, some exemption of widows' and dependants' annuities from estate duty, reduction in the rate of income tax on commutations and refunded contributions, and some relief from excess profits tax in respect of initial solvency payments by employers. In addition, the Superannuation and Other Trust Funds (Validation)

Act, 1927, legalised the trusts of existing superannuation funds and granted relief from the operation of the rule against perpetuities. The membership of the Association has grown from 55 to 846, the increase during 1943 being 101. The "pay-as-you-earn" system of income tax deduction applies to pension payments, and is welcomed as a great advance in the statement by the Chairman, Mr. John C. Mitchell, F.C.I.S., who considers that the work of administrators should not be unduly onerous, while the gain to pensioners is manifest. Discussions are still proceeding with the Inland Revenue on a proposal to make their approval of pension funds conditional on certain restrictions upon the amounts of contributions and pensions. The Council felt it desirable to have professional advice on actuarial matters, and accordingly Messrs. R. Watson & Sons have been appointed Honorary Actuaries to the Association.

Higher Rating Assessments

In a recent study, it will be recalled, Professor J. R. Hicks concluded that "the rating system is in a sorry mess," for the reason that rating assessments no longer correspond to their correct legal figure, and all properties are arbitrarily under-assessed to an extent which varies between different areas and between different classes of properties in the same district. By implication this conclusion is confirmed in a Report now published by the Departmental Committee on Valuation for Rates appointed in 1938. The Committee recognises the importance of restoring the legal basis to valuation. To mitigate undue hardship as a result of revaluation, however, it proposes that relief may be given where the assessment is increased by more than 15 per cent. This recommendation is strongly criticised by Lady Simon, one of the members of the Committee, who argues that it is a contradiction in terms to hold that hardship is purely an individual matter and at the same time to refuse to entertain applications for relief unless the increase in the assessment exceeds 15 per cent. Of the remaining ten members, four express reservations, and one submits a supplementary report.

Extension of War Risks Insurances

The Board of Trade have granted extensions of the period of insurance, without additional premium, under the various schemes applicable to war damage to commodities. Under Part II of the War Damage Act, business scheme policies originally due to expire on September 30, 1944, have already been extended to December 31, and are now extended for a further three months to March 31, 1945. Policies under the private chattels scheme issued for any period expiring on or after November 22, 1944, are extended to April 30, 1945. For stocks covered by the commodity insurance scheme under the War Risks Insurance Act, 1939, a similar three-months' extension is granted, policies expiring on December 2, 1944, being extended to March 2, 1945. No premiums will be charged under any of these schemes for the period of the extension, except in respect of new insurances or of additions to the amount covered.

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BRITAIN'S WAR EFFORT

After five years of war, our enemies are now so hopelessly outmatched that it has become safe to tell the world what the British people have achieved by their exertions. Detailed statistics of this country's war effort have been disclosed for the first time in a White Paper. By the middle of 1944, it is stated, no less than 4½ million men were serving in the armed forces, while our total labour force had been increased from 18½ to 22 million, partly by the elimination of unemployment and partly by bringing in 2½ million persons (mainly women) not previously in industrial employment. Of these 22 million, close on half were in the Services or in those industries mainly concerned in the output of munitions. In the so-called Group II industries (such as agriculture, public utilities and Government service), the number of men has been reduced by 600,000 and the number of women increased by 800,000; while the labour force of Group III industries (such as building, clothing and distribution) has been cut by more than one-third. Since half of the total even in these industries are employed on Government orders, it will be seen that the curtailment of civilian consumption has been severe.

The result of this thorough-going mobilization of our whole population has been an output of munitions and materials of war greater in relation to our population than in any other country. The impressive catalogue of munitions produced includes well over 100,000 aircraft—of which more than 10,000 were heavy bombers—35,000 pieces of artillery and nearly 3½ million machine guns and sub-machine guns. In addition, we have produced over 5,000 naval vessels, including 722 major ships with a total displacement of over 1,300,000 tons. Moreover, the severe losses suffered by our merchant marine were to a large extent met by the production of 4½ million gross tons of merchant ships in United Kingdom shipyards. Even allowing for the fact that 2 million tons of shipping under the British flag will be returnable to other nations after the war, our total mercantile fleet at the end of 1943 becomes 13½ million gross tons, a fall of only 23 per cent. since 1939. This is one of the most heartening pieces of information

contained in the White Paper, since it had been commonly supposed that our mercantile marine had fallen as low as 10 million tons or less.

All this has naturally not been achieved without heavy sacrifices. More than a quarter of a million have actually lost their lives, including nearly 30,000 merchant seamen and nearly 52,000 civilians. In many directions, civilian consumption has been reduced almost to nothing. In 1943, production of such things as furniture, carpets, wireless sets and household equipment, had either been entirely eliminated or reduced to negligible proportions. The financial counterpart of this cut in consumption is to be seen in the fact that in 1943 direct and indirect taxes absorbed 26.7 per cent. of all personal incomes (against 18.8 per cent. in 1938), while as much as 19.2 per cent. was perforce left unspent (against savings of no more than 3.5 per cent. before the war). The 54 per cent. of income devoted to consumption bought only 79 per cent. as much as in 1938, without taking into account the reduction in quality of many goods, such as the reduced size of newspapers.

Drafts on capital have been severe. The figures reproduced from the Budget White Paper indicate a gross running down or destruction of capital at home to the tune of £1,300 million. In addition, sales of overseas assets amounted to £1,065 million, while overseas liabilities had been incurred for £2,300 million, giving a total overseas disinvestment of £3,365 million. Moreover, our capital position *vis-à-vis* the rest of the world seems to have been deteriorating last year at a peak annual rate of something like £850 million. An especially severe casualty has been our export trade, which in 1943 was running at no more than 29 per cent. of its pre-war level in terms of quantity. In other words, in achieving the 50 per cent. overall expansion above the pre-war level which is needed to fill the gap in our balance of payments, our exporters will be starting almost from scratch.

The accountancy profession has taken its part in this total war effort both in the field and on the home front. The profession has contributed its full quota to the forces and to other forms of national service. Those left behind have played an indispensable part in the work of supply, since in war conditions one can no longer rely on the price system to eliminate waste and accurate costing is vital. Accountants have also shouldered many additional responsibilities arising from such matters as E.P.T. and Pay-As-You-Earn, and the difficulties of this work have been increased by the shortage of staff in clients' offices. Meanwhile, the representative bodies have given evidence on various occasions to Government departments and committees, such as the Cohen Committee, while the progress of accountancy technique has not been brought to a halt by the war, as is evidenced, for example, by the work of the Society's Research Committee, including the recent publication "Design of Accounts," and the statements of the Institute on Accounting Principles. The profession can feel that it has played its full share in the war effort.

This Saving Business

By OSCAR R. HOBSON

The material prosperity and progress of Britain after the war will depend largely on our maintaining a high rate of national investment. And that, in turn, will depend on our maintaining a high rate of saving—particularly personal saving. The need for large-scale investment must be obvious to anyone who considers our present economic situation in broad outline. We shall at the end of the war be short of two millions or so of dwelling-houses—by reason partly of enemy destruction and damage of houses, and partly of the absence of new building during the war. Our industry will need re-equipping and modernising on a very large scale—partly because it has been “let down” during the war, and partly because it was in certain departments out of date even before the war.

The very big programme of investment which is thus envisaged can only be accomplished if our people are content to forgo for some years the satisfaction of their “consumer” desires on the scale on which, after five or six years of war, they will naturally feel themselves justified in satisfying those desires. Up to a point, indeed, they will have no alternative. Plant and machinery which has become unserviceable or seriously inefficient through excessive wear *must* be quickly repaired or replaced, if a further serious decline in production is to be avoided.

Modern Plant or Current Consumption

Nevertheless, we shall have a considerable degree of choice. In many industries there will be the alternatives open of going on producing with the existing plant, obsolete or inefficient though it may be, or of scrapping it and replacing it with plant of modern design. A prominent example is to be found in the tinplate industry, where it will be a matter for decision whether to continue with the old methods of rolling and tinning, or to instal continuous strip mills and electrolytic tinning plant, which will produce a greatly superior product at much lower cost.

Now it is clear that if the general will is in favour of building up our industry to a high pitch of modernity and efficiency, a much greater sacrifice of current consumption will be called for than if it declares itself content with a policy of mere mend and make do. On the other hand, this latter policy—the policy of industrial patching—will condemn us indefinitely to a standard of living inferior to that which we could attain after an interval by the more drastic policy of modernisation—a standard of living markedly inferior to that which other more fortunately situated or more energetically minded nations will attain. That is not a prospect to which many Britons will reconcile themselves with equanimity, for though it would be easy to exaggerate the importance of high material standards of living, there is little doubt that acceptance of a definitely lower standard than that which could be reasonably attained by hard work and saving would be associated with a loss of national prestige and a definite abrogation of our traditional influence and standing among the nations of the world.

If we wish to assure for ourselves and our descendants a rising standard of material prosperity, and if we wish to retain our position of a Great Power with unrivalled moral influence and authority in the world, then we must at the end of the war, not indeed tighten our belts further, but refrain from loosening them as rapidly as we should like. Can we express this necessary process of abstention in quantitative terms? We have, at any rate, the data for making a reasonable guess.

Some Figures

It is generally calculated that in the early post-war years we must spend from £400 million to £500 million a year on housing. We have estimates of the necessary capital expenditure which certain big industries will need to incur to restore themselves to a state of first-rate efficiency. For coal-mining a figure of £300 million has been mentioned, for steel £150 million, for cotton £100 million, for electricity generation £100 million, and for railways £150 million—all these representing modernisation programmes to be executed over a period of, say, five years or so. On this basis one can reasonably put at £1,000 million to £1,200 million—and probably nearer the latter figure than the former—the minimum annual sum which this country must spend in the transition period if it is to hold its own, morally as well as materially, in the post-war world. The figure would cover accumulated depreciation and arrears of maintenance due to the war, but not the current cost of maintenance and depreciation, which was estimated at some £340 million in 1938, and will, no doubt, need a good £500 million a year after the war.

To obtain a measure of the “belt-tightness” involved, we must relate this £1,000-1,200 million to pre-war figures of saving and investment, and to the pre-war and post-war levels of the national income. Thanks to the Central Statistical Office and its annual “Statistical White Paper”—the relevant figures are also reproduced in the recent “War Effort” White Paper—we now have the necessary data available.

In 1938 out of a net national income of £4,604 million, private net investment at home absorbed £305 million, while there was private and Government net disinvestment abroad of £55 million. That means that, taking home and abroad together, our net private investment was only £250 million, that is, not much over 5 per cent. of the net national income.

There must, however, also have been a considerable amount of investment by the Government and public authorities, though in those days of rearmament it would not be easy to say exactly what Government expenditure should rank as “investment.”

However, total expenditure on goods and services, at home and abroad, by the public authorities was £837 million, so that it would seem conservative to reckon £100 million of this as investment. That would give a total investment of £350 million, or just over 8 per cent. of the national income. In 1943 net national income was £8,172 million, but (leaving out

of account the question of public investment at home) there was private disinvestment at home to the extent of £126 million, and there was £655 million of private and public disinvestment abroad.

After the War

For the first reasonably normal post-war year the net national income has been unofficially estimated at around £7,500 million. Postulating £1,000 million to £1,200 million of net investment (private and public), we therefore reach the conclusion that some 13 to 16 per cent. of the national income must be withheld from consumption and devoted to investment, if the social and national advantages above referred to are to be garnered. It is a pretty exacting requirement. But it is by no means an impossible one. It is consistent with a great increase in consumption as compared with the present wartime level. And it is consistent with a substantial reduction of the wartime standards of national saving.

That statement may call for a word of explanation. In normal peacetime conditions, a community's savings equal its investment—by definition. That does not hold in wartime, however.

Citizens save large sums from their incomes in order to lend them to the Government for the prosecution of the war. But the Government's use of the money cannot be termed "investment," for the greater part of it is devoted to the purchase of commodities which are immediately consumed.

Thus in 1943 the British people, according to the official estimate, saved £1,617 million out of a total gross private income (i.e., including National Debt interest, pensions, etc.) of £8,703 million. That represents a percentage of 18 $\frac{1}{4}$. Assuming total private income in the post-war year to be close on £8,500 million, the savings percentage necessary to

secure total savings of £1,000-1,200 million would be 11 to 14 per cent. A percentage of that order has been attained in Britain before—in the year or two before 1914. There is not the slightest reason for supposing that its attainment again after this war will impose any unreasonable burden on our people.

The National Savings Committee and its Task

It is evident, nevertheless, that, unless our housing and reconstruction programme is to be conducted at the cost of a substantial measure of monetary inflation, a great effort will be needed to organise popular saving on the necessary scale. Only the National Savings Committee and its organisation could conduct the necessary campaign of persuasion and propaganda, and it will be essential that all the resources of the Committee should be devoted to this task.

This does not necessarily mean that the savings of the people collected after the war through the National Savings campaign will be applied direct to the financing of housing and industrial reconstruction, though it may be hoped that ways and means will be found of steering part of the stream of fresh savings direct into these channels. To a large extent, however, industrial reconstruction will be financed by industrial companies and by investors out of their own capital resources, and the popular saving will be required to replace the Government securities which these owners of capital will have to sell or encash in order to raise the needed funds. It will in any case be imperative to base the appeal for the new savings upon the national need for new houses and modern industrial plant. All the resources of propaganda must be devoted to the achievement of this object, which is one of absolutely vital national interest.

Social Insurance

The Government's Proposals—II

By HENRY LESSER, O.B.E., LL.B., F.C.I.L., Barrister-at-Law

Retirement Pensions

The Government accept the view put forward by Sir William Beveridge that the Social Insurance scheme should provide, not an old-age pension, but a retirement pension. The qualifying age remains, as at present, 60 for women and 65 for men, but the pension will be awarded only on condition that the applicant has retired from work, and if he subsequently earns more than 20s. a week his pension will be reduced on a sliding scale.

A further innovation is the proposal, originally made in the Beveridge Report, that if the insured person remains at work and defers taking his pension until a later age, the rate of benefit shall be increased by 2s. a week (married couple) or 1s. a week (single person) for each year of deferment. The argument is that in view of the increasing proportion of elderly people among the population, it may well become a matter of vital importance to keep up the national income by encouraging those who have reached

pensionable age to continue at work. Whether the addition to the pension which is proposed is sufficient to induce any large number of people to remain at work may be doubted; but there is also an industrial problem to be solved, namely that of transferring older people to work which is suitable to their ability and physical capacity.

As in the case of widows' pensions, special provision is to be made for transitional classes. The rate of contribution proposed is that required for a person entering the new scheme at age 16 and continuing in insurance until pension age. On this basis no contributor could claim a pension until at least 44 years after the commencement of the scheme. In order, however, to bring the benefits into operation immediately, the following qualifications are laid down for different groups of persons:

Group A : Persons under age 16.—The payment of 156 contributions, and an average of 50 contributions paid or excused over the whole of working life. Where the average number of contributions is less than 50,

the pension will be reduced according to a sliding scale.

Group B : Existing insured persons who have reached pension age.—Existing pensioners will have their 10s. pension increased to the new rate of 20s. (35s. for a married couple) provided they have retired from work. A pensioner who has not retired will continue to draw the 10s. a week until retirement.

Group C : Existing insured persons who have not reached pension age.—These persons will not be entitled to the 10s. pension at age 60 or 65, but will receive the new retirement pension when they cease work. The contribution conditions will, however, be modified as follows :

- (i) they must have been insured for at least 5 years ;
- (ii) they must have paid 104 (not 156) actual contributions ;
- (iii) they must have an average of 50 contributions a year paid or excused applied retrospectively to a period not exceeding 10 years before the start of the new scheme. If the average falls below 50 the rate of pension will be reduced as in Group A.

Group D : New contributors over age 16, not insured under the present scheme.—Persons in this group will be required to contribute for 10 years before becoming eligible for retirement pensions, and the average of 50 contributions will be applied from the commencement of the new scheme.

It will be seen that persons in Group D over age 55 (men) or 50 (women) will not be able to qualify for pension at the normal retiring age. They may, however, either continue to pay contributions until the 10 years are completed, or claim a refund with interest of the pension part of their contributions and forgo any right to pension.

Private Pension Schemes

As the White Paper points out, many business concerns have their own pension funds, and it may well be that both employers and employed persons would wish to review their existing arrangements, having regard to the contributions and pensions payable under the Government scheme. It is therefore proposed that legislation shall include provision to make it easier to modify existing schemes, as was done by Section 27 of the Widows', Orphans' and Old Age Contributory Pensions Act, 1925. Some legal power of this kind will be found particularly useful where the managing body could not modify the scheme or could only do so at the cost of undue delay or expense. The practical implications of such provision were dealt with by the writer in a former article. (See ACCOUNTANCY for April, 1943.)

Other Insurance Benefits

The Government's scheme recognises the position of married women gainfully occupied by providing special sickness, invalidity, unemployment, and maternity benefits for those who are at work and insured in their own right. For the ordinary housewife there will be a lump sum maternity grant of £4, and an attendant's allowance on confinement at the rate of £1 per week for four weeks.

An entirely new feature of State social insurance is the provision of a death grant of £20 for each adult, with lower rates for children. Sir William Beveridge also recommended that the Government should convert the business of industrial assurance into a public service under an Industrial Assurance Board. This suggestion has not been adopted, though the White Paper points out that the introduction of a death grant makes it desirable to review such questions as insurance for indirect expenses connected with funerals.

Family Allowances

The provision of family allowances was Assumption A of the Beveridge Report. The Government have accepted that assumption, and accordingly propose that a cash allowance of 5s. a week shall be paid for each child after the first. The cost will be met, not out of the social insurance contribution, but from general taxation. There is the further provision, however, that when the head of the family is in receipt of social insurance benefit, a further 5s. in respect of the first child shall be payable out of the Social Insurance Fund. Most of the discussion in the House of Commons ranged round the amount of the allowance : the principle was universally accepted. In reply to critics, the Government pointed out that their policy was to extend considerably the provision in kind, such as school meals and milk, in addition to the cash payment, and this it is contended should have very desirable results in improving the children's health.

Industrial Injury

The Government's proposals in regard to Industrial Injury are set out in a separate Command Paper, though the contributions are to be collected as part of the social insurance contribution. There is not space to deal with the plan in detail, but three fundamental changes are put forward, namely :

- (1) The liability to provide compensation to workmen for disablement or loss of life from industrial injury will cease to rest on the employer and will become a social service administered under the authority of the Minister of National Insurance.
- (2) Benefits will be paid from a separate insurance fund to which employers, employed persons and the Exchequer will contribute. The weekly rates of contribution proposed are 6d. for men and 4d. for women, equally divided between employer and employee.
- (3) Injury allowances at uniform rates will be paid for temporary disablement, but if incapacity is prolonged industrial pensions will be payable, based, not on loss of earning capacity as at present, but on the degree of functional disability, as in the case of war pensions. These pensions would not be subject to reduction on account of earnings after the injury.

It is worthy of note that industrial injury is still to be defined as an injury "arising out of and in the course of employment"—words which have given rise to considerable litigation under the present law ; but under the new scheme reference to the Courts of Law is to be excluded.

Claims will be settled in the first instance by Industrial Pensions Officers at local National In-

surance Offices, but there will be a right of appeal to local tribunals on which employers and workmen are to be represented, presided over by an independent chairman with legal qualifications. A further right of appeal will lie to an Industrial Injury Insurance Commissioner, whose decision will be final. In regard to other legal remedies, e.g., claims for damages for negligence, the Government have set up a Committee of Inquiry with comprehensive terms of reference to report on the whole matter.

Contributions and Finance

The contributions of employers and insured persons to the National Insurance and Industrial Injury schemes will be substantial, as the following table shows :

	Class I			Class II	Class IV
Insured Person	Em- ployer	Total	s. d.	s. d.	s. d.
Man	3 10	3 1	6 11	4 2	3 4
Woman	3 0	2 5	5 5	3 6	2 8

These contributions, however, will meet rather less than half of the whole cost of the services, including family allowances and the health scheme. The balance will have to be found from taxation. At the end of twenty years the taxpayer's share will have risen from 54 per cent. to 64 per cent. of the total expenditure. In regard to persons entering the scheme at age 16, the Exchequer will meet one-sixth of the cost of retirement pensions, widows' and guardians' benefits, sickness and invalidity benefits, industrial injury, and maternity grants, and one-third of the cost of unemployment benefit. In addition, the Exchequer will bear the cost of admitting the existing population of all ages at the flat rate of contribution for a person aged 16. In terms of figures, this means that the cost to the taxpayer over and above the weekly contributions will amount altogether to £352 million a year at the commencement, and £557 million twenty years hence.

During the debate in the House of Commons, the Chancellor of the Exchequer pointed out that one-third of the total national income is provided by persons earning less than £500 a year. It is estimated that about 20 million people are normally receiving incomes in this country, the remainder of the population consisting of dependants. On this basis the expenditure out of taxation represents ultimately about £22 per income, or, say, 9s. a week. It is true, of course, that direct taxation does not fall equally upon all members of the community, but these figures give some idea of the real cost of the scheme, quite apart from the weekly insurance contribution paid by employers and insured persons.

Administration

The Government propose to consolidate the administration of the scheme in one organisation under the responsibility of a Minister of National Insurance. He will establish a wide network of local offices at which the public may lodge claims, seek information and guidance, and obtain the payment of certain benefits. No voluntary organisation is to be permitted to participate in any form whatever. Strong pleas were made in the course of the debate

in Parliament for the retention of friendly societies as agents of the Government in the administration of sickness benefit, having regard to the excellent record of these societies in the administration of national health insurance since its inception in this country. The Government's objections to their employment, however, were set out in Appendix 2 of the White Paper, in regard to which Sir William Beveridge said that "they were the weakest reasons in defence of an indefensible position" that he had ever seen put forward.

The Government admit that the proposed new Ministry will have to use agencies, but these agencies must, according to the White Paper, be other Government Departments. For example, the Post Office is to be used for the payment of pensions and the Employment Exchanges for the payment of unemployment benefit, while the Assistance Board is to have even larger powers than it has at present in filling gaps left in the insurance scheme proper.

If the debate in the House of Commons is any guide, it is unlikely that the last word has yet been said by the Government on this subject.

Conclusion

These schemes have been put forward as a basis for legislation subject to "such adjustments as parliamentary debate and public discussion may suggest." On the whole, it must be conceded that the Government have made a praiseworthy effort to extend and co-ordinate the national insurance services by placing them on a more rational basis, so far, at least, as contributions and benefits are concerned. The plan will go far to mitigate hardship arising from economic conditions of life over which individuals have little or no control, and as such will be warmly welcomed. But it should not be forgotten that its ultimate success will depend, as the White Paper points out, on the nation responding "by a fresh outburst of that creative energy which has marked the greatest periods of our history."

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"This book is first and foremost an examination aid. It is intended to form the basis of the student's own notebook, and blank pages are provided in order that each student might add such additional notes as he desires." So commences the preface. There is, of course, undoubted value in constantly re-reading examination subjects, and assistance to the student in his heavy task of memory must be welcomed. Although, too, many students find the writing of their own full notes of great value in fixing their attention, it must be owned that the neat and compact form of this book offers considerable advantages.

At the same time, the author's own limited intention—that from these notes the student may recall the framework of each subject—should be emphasised. It is too often imagined that it is easy for the student to understand and absorb short summaries of difficult subjects which require full and reasoned exposition.

TAXATION**Double Taxation—Egypt**

The British Chamber of Commerce of Egypt, Alexandria Committee (Taxation Sub-Committee) has reported on "Proposals for relief from double Taxation (Income Tax and Excess Profits Tax) either paid to British and/or Egyptian Governments by British Companies operating in Egypt." Although their terms of reference referred to companies, the sub-committee have deemed it necessary to include partnerships, individuals, and all forms of enterprises resident or deemed to be resident in Great Britain, and conducting financial or trading operations in Egypt.

The memorandum is supported by extracts from *The Times* of May 1, 1944, commenting on the action now being taken by the British National Committee of the International Chamber of Commerce, and by the Report of that committee dated April, 1944.

The Problem

The case stated is one that must be faced squarely if this country is going to have its share of world markets. It is pointed out that the Egyptian Government does not claim the right to tax profits arising in England or elsewhere outside Egypt unless these profits are made as a result of the exploitation of an enterprise established in Egypt, whereas British companies, etc., resident in the United Kingdom, having branches and/or holding investments in Egypt are subject both to Egyptian and to United Kingdom tax. As the Dominion income tax relief provisions do not apply, the only relief is the deduction of the Egyptian tax as an expense for United Kingdom taxation.

Examples are included to show the crippling effects, of which the following (summarised) are typical:

(1) Y., Ltd., has an income of £1,000 (gross), which has suffered Dominion tax at 4s. in the £, and £1,500 United Kingdom profits.

Liability : £2,500 at 10s. in £	£1,250
Less D.I.T.R., £1,000 at 4s.	200

U.K. tax payable	£1,050
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Had the £1,000 arisen in Egypt :

U.K. profits	£1,500
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Egyptian income	£1,000
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Less tax at 4s.	200
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800

£2,300

U.K. tax at 10s.	£1,150
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(2) Profits earned from trade with Egypt ..

Egyptian tax, 12 per cent. ..	£12
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U.K. tax, 50 per cent. of £88 ..	44
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56

Net income	£44
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It is difficult to compete with tax at 56 per cent. with an Egyptian paying 12 per cent.

The Sub-Committee cannot recommend diplomatic negotiation for relief from Egyptian taxation in favour of British companies, in the absence of adequate compensation in favour of Egyptian nationals operating in Great Britain.

The Factors

A formidable list of arguments is produced in favour of exempting from United Kingdom taxation the profits

made in Egypt until they are distributed to the proprietors, and even then to give relief for the tax paid on them locally. Special emphasis is laid on the fact that a number of other countries, notably the U.S.A., have given relief to their citizens in respect of foreign taxation on profits earned in foreign countries. There is no criticism of the E.P.T. position.

The extension of the Dominion tax relief principles is not recommended, as it would not afford maximum relief.

It appears from the report that it may not be practicable much longer to conduct business in Egypt through local concerns or individuals with no particular interest in Great Britain, profit being their major consideration; and local agents usually represent foreign competing firms in the same line of goods. Apart from other disadvantages, the British manufacturer (though escaping Egyptian tax) takes no part in the development of his own trade except the appointment of the agent. The tendency is shown to be to remove business management from Britain to Egypt, so that the business may become non-resident, control and management being in Egypt. A danger exists that British companies formed locally may be declared null and void by the Egyptian Law Courts on the ground that they are in effect Egyptian companies set up on irregular bases; there is already a precedent. Recent proposed Egyptian legislation bears a discriminatory trend against non-Egyptians, which would make it difficult for British enterprise to operate under the local Egyptian system of limited liability.

The alternative is to continue to operate "under the serious financial burden of double taxation with small incentive to develop export trade in new directions," or to close down and cease operations in Egypt entirely.

Maximum relief from double taxation would overcome these handicaps, and British concerns could operate freely, enjoying British protection and privileges, without being liable to British taxation until the profits reached the proprietors in the United Kingdom. Full residence in the United Kingdom could be maintained without recourse to methods whereby British operations are conducted without any control or management from the United Kingdom, or under the guise of local companies or by local individuals.

Foreigners would probably then see no serious disadvantage in acquiring British residence by forming companies in the United Kingdom, subscribing capital, appointing British nationals as directors, etc. Any direct loss of taxation should be made up by the resultant benefits to British overseas trade, and the enhancement of British prestige.

Recommendations

Finally the Sub-Committee recommends full support to the recommendations of the British National Committee and no United Kingdom tax on Egyptian profits until distribution to proprietors resident in the United Kingdom; even then, tax only at the excess of the United Kingdom rate over the Egyptian rate. It wants the relief immediately as a domestic reform of the British Government without waiting for negotiations for reciprocation.

The problem is one that will command itself to our readers. No doubt it is already exercising the minds of the Treasury, but we would emphasise the urgency of its solution. Plans for post-war rehabilitation and resumption of overseas trade are matters of the first

importance, in which the incidence of taxation will prove a vital factor. The incentive of profit must always be present, and if the share left for the proprietors is inadequate, a serious brake will always be the result.

Even an announcement that relief would be given after the war would give a feeling of confidence and encouragement that would enhance trade. We commend the thought to the Chancellor of the Exchequer.

Taxation Notes

Losses and Wear and Tear

The relief given under Section 19, Finance Act, 1932, is very valuable where the deduction of losses brought forward under Section 33, Finance Act, 1926, has been prevented by the wear and tear allowance having to be deducted first. In such cases any loss for which relief has not been given within the statutory period of six years can be carried forward in so far as relief would have been given had wear and tear not been deducted first.

Illustration :

Year of Assessment	Profits of Accounts ended in year	Gross	Assessment		Net	Wear and Tear for year of Assmt.	Wear and Tear carried forward	Loss carried forward	Potential S.19 claim
			W. & T.	Loss					
1937-38 500	£	£	£	£	£	£	£	£
1938-39	... Loss 1,600	500	160	—	340	—	—	1,600	(1944-45)
1939-40 300	—	—	—	—	150	150	—	—
1940-41 400	300	290	10	—	140	Nil	—10	290
1941-42	... Loss 500	400	130	270	—	130	—	1,590	—270
1942-43 200	—	—	—	—	145	145	—	—
1943-44 500	200	200	—	—	135	80	—	200
1944-45 700	500	205	295	—	125	—	—295	205
1945-46 1,000	700	115	500	85	115	—	1,025	825
				Less S. 19 loss	85	—	Nil		

The loss made in 1938-39 is available only until 1944-45. Had wear and tear not been deducted first, the relief would have been :

1940-41	..	£300
1941-42	..	400
1943-44	..	200
1944-45	..	500
		£1,400

Relief has been given :

1940-41	..	£10
1941-42	..	270
1944-45	..	295
		575

Leaving .. £825

This is the amount available under Section 19, Finance Act, 1932, as shown by the last column of the illustration.

In 1945-46 the computation must proceed in the normal fashion, using the loss made in the preceding six years before applying the loss now available under Section 19, for which there is no time limit.

Had the wear and tear exceeded the original loss,

taxpayer's side, the position is not so clear-cut. He can always obtain a second opinion if he knows where to go for it, and is prepared to pay. His natural source of information is his accountant, and it is to him that the taxpayer would normally turn for guidance. To the young accountant, however, possibly practising alone, there inevitably comes a time when he would like his opinion to be backed up by someone with more experience, or when he feels that he does not know enough about a particular type of case to venture on an opinion.

This problem rarely arises in a larger firm, where partners are able to specialise, as one partner or other can usually provide the missing link. Where, however, is the general practitioner, working alone or with a partner in the same boat as himself, to turn for help? To him we offer a word of advice: do not hesitate to consult professionally a fellow member who is a senior practitioner and who has had special experience in taxation matters—or if it is a legal problem, counsel. One of the general functions of the District Societies is to keep members in touch with one another, and we have no doubt that the Honorary Secretaries will be glad to facilitate consultations.

It is of the utmost benefit to the profession as a whole to share and discuss problems, and the happy relations which exist between practitioners are the best augury for the progress of the profession as a whole. Especially in taxation is it true to say that no accountant can hope to go through life without taking a second opinion at times, unless he is prepared to run the risk of not doing his best for his client.

Schedule A

The right of a tenant to withhold payment of Schedule A tax recoverable from the landlord in excess of the next payment of rent must always be borne in mind at this time of year.

Illustration :

Rent	£120 payable quarterly
N.A.V.	100
Tax payable .. .	50
Next payment of rent	30
Excess	20

The tenant can pay £30 on January 1, leaving the balance of £20 until April 1, so as to maintain his right

of deduction from the next payment of rent. Notice of the intention must be given to the Collector of Taxes.

Tax Reserve Certificate Interest

A correspondent takes the opposite view to that expressed in the note in our last issue, the gist of his argument being (in his own words) : "In no way does the abatement augment or add to the sum total of income receipts of the taxpayer, but all it does in effect is to release him from the necessity of depleting the cash at the bank to the extent of the set-off allowed . . . with the consequent net result that the residue of profits available for distribution is automatically increased by a like amount." We cannot subscribe to his argument. There is no more foundation in it than there would be in regarding discount allowed by a creditor as not increasing the available profits. All that our correspondent really says is that the "interest" reduces the tax payable, just as the discount referred to reduces the real cost of the goods. The interest on the certificate, he admits, increases the amount available for distribution.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Death Duties—Income Tax—Annual payment—Jointure rent-charge—Payable "without any deduction"—(1) Whether free of Estate Duty and Succession Duty—Finance Act, 1894, Section 14 (1)—In addition to jointure, annuity charged on life interest—Both charges in arrear several years, but arrears finally paid out of taxed income—(2) Rate or rates at which tax deductible from arrear payments—I.T. Act, 1918, General Rule 19—F.A., 1927, Section 39 (1).

In *In re Sebright* (Ch. Div., March 30, 1944, T.R. 243), there were two distinct points, one affecting death duties and the other income tax. The second point was one upon which judicial decision has been awaited for some years. In 1897, certain lands were settled in strict settlement, and the successive tenants for life were given certain powers. In 1906, the tenant for life appointed a jointure of £600 to his widow, during her life, payable half-yearly "without any deduction." The first point was whether a jointure so payable was exonerated from estate duty and succession duty. Vaisey, J., held that it was.

In 1929, the present tenant for life, in circumstances which need not be set out, agreed to pay an annuity of £600, charged upon his life interest. This was in addition to the £600 jointure under the 1906 appointment. Both charges fell into arrear for some years, and the arrears were then paid wholly out of income which had suffered tax at 10s. in the £. The question was as to the rate or rates of tax deductible from the arrears. By Rule 19 of the General Rules, I.T. Act, 1918, as amended by Section 39 (1) of F.A., 1927, the payor in these circumstances is entitled on making such payment to deduct and retain thereout a sum representing tax "at the standard rate for the year in which the amount payable becomes due." Here, there was no question as to what were the due dates; but the rates of tax for the earlier arrears were less than 10s. in the £. Vaisey, J., held that tax was deductible at the accruing rates and, justifiably, said that the authorities cited to him were not of much assistance. One case not referred to is that of *Dewar v. C.I.R.* (1935, 2 K.B. 351, 19 T.C. 561), where Maugham L.J., expressed his opinion upon the subject.

At some future time, the higher Courts will, no doubt, have to consider the problems involved. Two of these

may be mentioned. Assume, firstly, that an annuity potentially within Rule 19 is in arrear for, say, ten years, and is then paid out of taxed income. The payor will be entitled to deduct tax under the Rule, but, assuming accruing rates to be deducted, what are the rights of the payee? Are they limited to six years? Again, assume a similar position except that the income is outside of Rule 19. Is the Revenue's right to assess limited to the same period? At the present time, Rules 19 and 21, yearly and other interest, together with "annual payments," create a chaotic position. For instance, it would be Gilbertian if it were not so often serious that a person's total income from all sources should depend, of all things, not upon his own position, but upon that of his debtor or upon what his debtor chooses to do.

Schedule D, Case I—Statutory water board—Precepts issued by and to it—Whether sums received under precepts trade receipts—Whether amounts paid on precepts allowable as trade expenses.

Ostime v. Pontypridd and Rhondda Joint Water Board (C.A., July 24, 1944, T.R. 261) was noted in our issue of April, 1944, where the main facts were set out in the heading. In the Court of Appeal, the decision of Macnaghten, J., affirming that of the General Commissioners in favour of the Water Board upon both points was unanimously reversed. These cases are too technical and too restricted in their interest for detailed analysis; but the opinion may be expressed that at the first opportunity the whole question of the taxation of such "profits" should be examined from the standpoint of public interest and not left to be dealt with by reference to the technical position under the Income Tax Acts.

Income Tax, Schedule D—Foreign possessions—American company in which appellant had predominant interest—Declarations of dividend in form of certificates of indebtedness—Certificates payable at end of approximately three years, but right reserved to pay off at any time—Interest on certificates at 4 per cent. payable quarterly—Certificates negotiable instruments—Whether income or capital receipts—if income, time of receipt.

Associated Insulation Products, Ltd. v. Golder (C.A., July 24, 1944, T.R. 267) was noted in our issue of July,

1944. In the Court of Appeal, the judgment of Macnaghten, J., was unanimously affirmed to the effect that the distribution was one of income, and that it did not arise as income until the due date. *Cross v. London and Provincial Trust, Ltd.* (1938, 1 K.B. 792, 21 T.C. 705), was followed upon the second point.

Schedule D—Trade—Deduction—Colliery company—Statutory obligation to obviate or remedy loss of efficiency of drainage system through subsidence—Proposal to work beneath a drain—Agreement to contribute large sum to improvement scheme whereby drain eliminated—Payable in sixty half-yearly instalments—Whether each payment deductible as a revenue expense or disallowable as capital expenditure.

Bean v. Doncaster Amalgamated Collieries, Ltd. (C.A., July 26, 1944, T.R. 271) was noted in our issue of July, 1944. In the Court of Appeal the decision of Macnaghten, J., affirming the decision of the General Commissioners, was unanimously reversed. The judgments are interesting as some more analyses of the difficult question of how far the problem of distinguishing between capital and revenue is one of fact and one of law. du Parcq, L.J., in an interesting judgment, said as to this : "When once the facts have been ascertained, then only one answer to the question posed can be right. Opinions may differ, but that is not to say that more than one of the differing opinions can be correct. Unless the Commissioners, having found the relevant facts and put to themselves the proper question, have proceeded to give the right answer, they may be said, on this view, to have erred in point of law." This dictum, by itself, would seem to impose upon Commissioners an impossible task ; but, a little later, he observed, "the appropriate tribunal cannot be said to have made an error in point of law, unless it has hit on an answer so wide of the mark that, on the available evidence, no reasonable man could have given it." The present writer finds it difficult to reconcile these two passages. Nevertheless, they reflect the legal inconsistency upon the subject to which Scrutton, L.J., drew attention so forcibly in *Currie v. C.I.R.* (1921, 2 K.B. 332, 12 T.C. 259).

Estate Duties—Life assurance policies on deceased's life—Family settlement executed in 1922 whereby policies assigned to trustee—Income-yielding investments also assigned—Additional investments subsequently assigned—Deed of appointment and further deed of settlement in 1930—Death of settlor September 5, 1934—Premiums from institution of trust paid by trustee out of trust income and paid solely for benefit of the trust beneficiaries—Whether policies throughout period subsequent to 1922 kept up by deceased and therefore liable to duties—Customs and Inland Revenue Act, 1881, Section 38—Customs and Inland Revenue Act, 1889, Section 11—Finance Act, 1894, Section 2 (1) (c) (d).

In *Lord Devonport's Trustee (Barclays Bank Limited) v. Attorney-General* (House of Lords, July 27, 1944, T.R. 277), a case marked by a striking difference of judicial opinion was finally decided in favour of the trustee. The facts are sufficiently set out in the heading. In the King's Bench Division and in the Court of Appeal (Luxmoore, L.J., dissenting) it had been held that the policies in question came within the charge to duties in respect of money from policies on the life of the deceased :

"wholly kept up by him for the benefit of a donee, whether nominee or assignee, or a part of such money in proportion to the premiums paid by him, where the policy is partially kept up by him for such benefit" (Customs and Inland Revenue Act, 1889, as amended by Section 2 (1) (c) of F.A., 1894),

in that despite the settlements made the policies had been "kept up" by the deceased. (It was conceded that duty under Section 2 (1) of F.A., 1894, was exigible.)

The House of Lords reversed unanimously the decisions of the lower Courts. Their findings can be summed up in Lord Thankerton's approval of the statement of Luxmoore, L.J., who had declared that the funds were no longer the property of the first viscount and that they belonged in equity to the beneficiaries who alone could enforce the trusts. They had not been paid in any sense by the trustee as agent of the settlor. Lord Macmillan gave the useful dictum that "To keep up a policy is to pay the premiums as they fall due," and Lord Wright said much the same thing. The last-mentioned judge said as to single premium policies that the payment "would have the effect not so much of keeping up a policy as establishing its operation once and for all. The Act did not apparently contemplate this contingency."

The decision is an important one, and will prevent the two simple words "kept up" from becoming a legal battleground, although the position regarding single premium policies will apparently require legislation.

Schedule D—Employers' mutual insurance association—Company limited by guarantee with no share capital and no shareholders—Principal object insurance against claims arising out of accidents—Premium rates fixed from time to time and levied according to wages paid—Special premiums or calls to meet extraordinary disasters or deficiencies of ordinary income—Directors required to set aside not more than £25,000 as reserve fund—Surpluses—Part of surplus income returnable to members based on each member's contributions and amounts debited to him or paid out of his account—Surplus assets or deficiencies on winding up of association apportionable amongst members—Whether surpluses arising from transactions with members chargeable to income tax—Finance Act, 1933, Section 31.

Ayrshire Employers' Mutual Insurance Association, Limited, v. C.I.R. (Court of Session, July 20, 1944, T.R. 295) was a case where the facts were very similar to those in *Jones v. South West Lancashire Coal Owners' Association, Limited* (1927, A.C. 827, 11 T.C. 790), and the Crown's claim was held to rest entirely upon the change in the law affected by F.A., 1933, Section 31. By that section, profits or gains chargeable under Case I of Schedule D

"shall be deemed to include a reference to a profit or surplus arising from transactions of the company or society with its members which would be included in profits or gains for the purposes of that provision or rule if those transactions were transactions with non-members."

All the Judges were unanimous in holding that where mutuality exists there is no profit taxable, irrespective of whether there is membership or not. They, therefore, reversed the decision of the Special Commissioners.

The resultant position as regards Section 31 was indicated by the Lord President, who, in the course of his judgment, said :

"It is not wholly satisfactory to me to say that this company and others like it lie outside the ambit, whilst confessing my uncertainty about what companies or societies fall within it."

and it remains to be seen whether the Revenue will acquiesce in the decision, carry the case to the Lords, or try further legislation.

In the report of *Lucas v. Charles Hammerton and Co., Ltd.*, in our last issue, it was stated that "In the present case, the premiums had been paid by the vendor companies." This should read : "... paid to the vendor companies."

FINANCE

The Month in the City

Municipal Conversions

The Treasury still appears to be experimenting on the terms appropriate for municipal conversion issues. All the recent issues have carried interest at 3 per cent. and have been offered at 99, but there have been interesting variations in the dates of redemption. The first series, dated 1964-69, were not successful, and the authorities were called upon to take up substantial unconverted balances. Subsequently the Taf Fechan Water Supply Board offered stock, dated 1962-65, and finally the latest series of municipal conversion issues are dated 1963-66. The latter, it will be seen, with a maximum life of 21½ years, represent somewhat cheaper money than Taf Fechan's 20 years, but not so cheap as the maximum of 24½ years prevailing for the earlier series of conversions. The Treasury has, in fact, made a slight withdrawal from these excessively cheap terms, but even the latest issues are not outstandingly attractive by comparison with the returns obtainable on British Government securities. The yield differential still seems to offer small compensation for the fact that the municipal issues, owing to their size, are much less readily marketable than British Funds. Lack of marketability, however, will be a less important factor in the case of some of the large municipal issues which are likely to be converted next year, and the terms now being offered probably provide a foretaste of what is to be expected in the future. It has in fact just been announced that the L.C.C. will convert part of its 4½ per cent. 1945-85 stock into a new 3 per cent. stock 1962-67 at 99.

Steel Merger Terms

The terms of the fusion between Richard Thomas and Baldwins show that the latter is transferring more of its assets than was originally thought would be the case. Baldwins is only retaining investments with a book value of £771,000, which include its holdings of Notes and Preference shares in Guest, Keen, Baldwins, and a cash balance amounting to £1½ million. All the remaining assets go to Richard Thomas in return for 8½ million of the latter's 6s. 8d. ordinary shares. On the basis of the available figures, it is difficult to say whether this is a fair price. Baldwins' earning power on the assets transferred, so far as this has been disclosed in the past, suggest that the consideration is about right. On the other hand, Baldwins' earning power in the future on assets which are largely out of date as compared with those of Richard Thomas might have been quite another matter. On balance, Baldwins' shareholders at least should have every reason for satisfaction at the terms of the deal. The holding of ordinary shares in Richard Thomas, which represent 37 per cent. of the latter's equity, will bring in a gross income of £354,000, assuming that the dividend is maintained at 12½ per cent. This sum would be sufficient to cover the dividend requirements of all the Baldwins' preference issues, as well as to pay the usual 10 per cent. on Baldwins' ordinary. In addition, Baldwins will benefit from the income derived from the cash and investments mentioned above. From the point of view of the preference shareholders in the two companies, those of Richard Thomas will gain from the replacement of the 4 per cent. prior lien debentures by 3½ per cent. notes, and by the reduction from 4½ per cent. to 4 per cent. in the interest on the first mortgage debentures, which now resume their position as the first charge on the company. Cover for the Baldwins' preference dividends should be ample from the retained assets alone, but the position of these issues will be less strong if the cash resources at present

held by Baldwins are used for financing further schemes of the group—as it is intended that they shall be. Under those circumstances, Baldwins' preference issues would be more dependent on the income received from the holding of Richard Thomas ordinary.

British Celanese

The fact that dividend announcements usually precede the publication of profits has long been recognised in the Stock Exchange as a frequent source of confusion. Cases occur in which the two events give a very different impression of the fortunes of the companies concerned, with the result that share prices fluctuate unnecessarily. An unfortunate example of this was provided last month by British Celanese. The declaration of a maiden dividend of 15 per cent. on the 10s. ordinary shares was naturally followed by a sharp rise in the price, which at one time was as high as 42s. Subsequently the report showed a fall in trading profits, and revealed that the dividend was only made possible by the re-crediting to profit and loss account of a tax over-provision of previous years. The shares thereupon fell back sharply. An unnecessary occurrence of this sort could have been avoided by the publication of preliminary profit figures with the dividend announcement. The Stock Exchange Committee has, in fact, circularised companies as long ago as 1938 with the request that dividend announcements should be accompanied by profit statements, but the practice is still not as general as it should be.

New Issues Control

Treasury control over new capital issues has been extended to include issues of £10,000 and under. Previously there had been automatic exemption from control for issues of this amount, but it was found that abuses had taken place. The formation of a number of companies, for instance, all under the same auspices, but each able to issue capital up to the maximum amount free from control, would defeat the purpose of the regulations. The new regulation, therefore, removes this automatic exemption for small issues, and companies incorporated in the future will need specific Treasury authorisation in order to become entitled to the exemption. Similarly the Treasury may direct that the exemption shall not apply to any particular company already incorporated. It is understood that the authorities do not intend to exercise any closer control than before over the purposes for which these small capital issues are employed. The purpose of the order is merely to ensure that only companies whose incorporation has been of a *bona fide* nature from the point of view of the regulations enjoy the exemption from control accorded to issues of £10,000 and less. Once the Treasury is satisfied that there is no attempt at abuse of the regulations, the authorisation will presumably be given. It seems surprising, nevertheless, that further powers over capital issues should be regarded as necessary at this stage of the war.

Permission to Place

Another aspect of Treasury control which has come to the forefront again during the past month is the "gentlemen's agreement" not to place existing shares, which are unquoted on the Stock Exchange, without the sanction of the Treasury. This arrangement between the Bank of England and the various institutions concerned with placings outside the market was entered into six months ago, with the stipulation that it should come up for review at the end of the year. No announce-

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ment on the subject has been made up to the time of writing, but it appears likely that the agreement will be extended for another period. Given the fact that permission to deal is subject to official approval, it is

logical that permission to place should be similarly covered. The alternative to a continuation of the "gentlemen's agreement" would be a more formal, and perhaps more permanent, imposition of control.

Points from Published Accounts

J. Brockhouse and E.P.T.

An interesting note is appended to the balance sheet of J. Brockhouse and Co., and repeated in identical terms in the consolidated balance-sheet also provided. "The accumulated E.P.T. post-war credit to date (none of which has been included in the accounts) amounts," it says, "to £406,590, which will be subject to income tax." In a few instances directors' reports or chairmen's speeches have kept shareholders informed of the E.P.T. post-war credit position; but this is the first time we remember seeing the information plainly presented by way of balance sheet endorsement. Assuming that the post-war refund will attract income tax at the present standard rate, the credit is equivalent to 22 per cent. of the ordinary capital of £922,298, and added to the group reserves of £1,051,802 already existing, it makes a total of £1,255,097. The treatment of current taxation is, however, less illuminating. There is a case for giving more detail on both sides of the profit and loss account. In the consolidated statement, for instance, the only item of revenue is an amount of £235,826 described in this way: "Trading profit, including income from investments, and after making provision for all expenses of management, employees' output incentive bonus, etc., Excess Profits Tax, National Defence Contribution, and income tax, ultimately payable on all profits up to the date of the balance sheet."

Wall Paper Manufacturers

An increasing number of companies are adopting the practice of submitting consolidated accounts, and in many instances the group position, thus disclosed for the first time, is seen to be appreciably stronger than

that displayed by the parent company's accounts alone. With Wall Paper Manufacturers, for instance, goodwill, patents, processes and trade marks are brought into the parent's balance-sheet at £1,100,000. There was at least a possibility that the valuation of £1,593,139 placed upon shareholdings in subsidiaries might include, in effect, a further sum for such intangible items. But the consolidated balance-sheet, now submitted for the first time, indicates that so far from this being the case, the net tangible assets of these companies have a value appreciably greater than that sum. The group figure for intangible assets coincides with that shown by the parent, while, on the other hand, group reserves (including profit and loss balances) aggregate £1,550,674, against £1,215,177 for the parent alone. The consolidated profit and loss account is also of great interest. Dividend appropriations and allocations of £110,000 to specific reserves entail over-running the net profit recorded by the parent company to the extent of £4,481, but from the consolidated accounts it is clear that the subsidiaries have also added £6,470 to specific reserve, and have augmented their carry-forward by £40,373. The group statement of profits is, incidentally, a very comprehensive one. Income of £100,063 from investments and loans is shown separately from trading profit of £909,474, while the debit items comprise debenture interest, depreciation, war damage contribution, and provision for taxation. A minor criticism is that the significance of the £1,134,954 reserve for British and Dominion taxation in the consolidated balance-sheet is not indicated. If any part of this represents provision for future liability, it might well have been segregated. If, on the other hand, the group has made provision only for the liability accrued to the balance-sheet date, the fact might with advantage have been made plain.

Publications

Financial Policy in Wars and Slumps. By H. Houston. (King and Staples, Ltd., London. Price 10s. 6d. net.)

In his own words, Mr. H. Houston has set himself an "ambitious" task, for, in the space of some 150 pages, the reader is taken through the financial troubles of this country from the close of the Napoleonic wars until the present day. The author, nevertheless, is well qualified for his task; he has clearly made exhaustive researches into the records, and the result is a book that should stimulate discussion and argument among readers who are concerned with the wider problems of monetary and financial policy at the close of this war. As a background to the inevitable arguments surrounding the transition phase—and beyond—Mr. Houston's book will be found to be an excellent introduction.

So far as the future is concerned, the author argues that considerable publicity should assist the Government's work of explaining, clearly and precisely, the folly, no less than the danger, of seeking fully to encash monetary claims during the phase of potential inflation.

Once these troubles are surmounted:

Monetary policy must be designed to maintain a high level of activity under stable conditions. This objective

is closely linked with "full employment," which largely obsesses politico-economic opinion at the present time. The two objectives are not quite identical, because full employment of labour can always be achieved by any Government which cares to sacrifice all other aims to this one purpose. But obviously the achievement of maximum welfare for the community, including an appropriate degree of leisure, should be the real object of policy, and full employment should be regarded as a necessary means to such an end.

Mr. Houston takes due note of the complete reversal of monetary policy in recent years, exemplified in the recent White Paper on Employment Policy:

There can be no question of adjustment in the volume of credit and currency being made to preserve the international value of sterling. It is certainly to be hoped that foreign exchange stability can be secured in order to facilitate the building up of international trade and to encourage the investment of long-term capital on occasions when this may seem desirable. But where there is any conflict . . . there is no doubt that it is external stability which must be sacrificed.

The "only satisfactory policy," Mr. Houston urges, "will be one which keeps money in its modest place as the discreet servant of the community."

Extra Statutory Tax Concessions—II

We are publishing in two instalments the full text of the recent White Paper (Cmd. 6559), "A List of Extra-Statutory Wartime Concessions given in the Administration of Inland Revenue Duties." The section on Excess Profits Tax appeared in our last issue; the sections of Income Tax, N.D.C., Death Duties, and Stamp Duties are given below.

The wartime concessions described below are of general application, but it must be borne in mind that in a particular case there may be special circumstances which will require to be taken into account in considering the application of the concession.

INCOME TAX

1. INCOME FROM LAND, HOUSES, ETC.

(i) Abatement of rent.

Where owing to war conditions rent is abated, waived or temporarily reduced, the tax payable is computed not by reference to the annual value as assessed under Schedule A, but by reference to the lower figure of the rent. (Tax under Schedule B where payable in such a case is similarly computed by reference to the rent.)

(ii) Property in "evacuation," "defence" or "protected" areas.

(a) Relief from Income Tax Schedule A is allowed by law where a house is unoccupied (unless rent remains payable), but in strictness a house is not regarded as unoccupied if it continues furnished and ready for occupation.

The relief is given notwithstanding that the house continues furnished and ready for occupation in the cases of:—

owner-occupiers of property in an evacuation area who either under compulsion or in compliance with an official appeal relating to the area have left the area;

owner-occupiers of property in a defence or protected area who ordinarily reside outside the area and are not permitted to visit (for residence) their properties in that area;

alien owner-occupiers of property in a protected area from which aliens are excluded;

licensed premises in an evacuation area which are closed.

(b) Where the owner-occupier continues to live in his house in an evacuation, defence or protected area, any reduction of the rating valuation is followed for Income Tax purposes without formal reduction of the Schedule A assessment.

(iii) Damaged properties.

Where an owner-occupied property is seriously damaged by enemy action but is rendered only partly or temporarily uninhabitable, relief from Income Tax Schedule A is allowed in proportion to any relief that may be given from rates.

2. TEMPORARY RESIDENCE IN THE UNITED KINGDOM OWING TO WAR CONDITIONS.

Income from United Kingdom sources is, in general, chargeable to Income Tax wherever the recipient is resident, while a person resident in the United Kingdom is liable also on income arising from sources outside the United Kingdom (either on the full amount of the income or on the amount remitted to this country, according to the taxpayer's circumstances or the nature of the income).

The following relaxations of the strict liability are made:

(i) Members of Allied, Dominion or Colonial Forces,

or Mercantile Marine or recognised welfare organisations attached thereto.

Members of these Forces or organisations who have become temporarily resident here by reason of their service are treated as not resident for Income Tax purposes and are thereby exempted from tax on any income arising to them from sources outside the United Kingdom.

(ii) Persons who have come to the United Kingdom to join the Armed Forces of the Crown or the Mercantile Marine or the British Red Cross.

Where such persons have become temporarily resident here by reason of their service, they are treated as not resident for Income Tax purposes and are exempted from tax on income arising to them from sources outside the United Kingdom.

(iii) Refugees.

(a) In the case of individuals who have become temporarily resident in the United Kingdom because of enemy occupation of their home country, income from sources outside the United Kingdom is dealt with as follows:

as regards *Allied Nationals* no tax is charged; as regards *individuals domiciled in the Channel Islands* tax is charged at the appropriate Channel Island rate.

(b) In the case of companies the central management and control of which was previously abroad but has been transferred to the United Kingdom because of enemy occupation of the home country and which have consequently become temporarily resident in the United Kingdom, profits from trading operations carried on abroad and income from foreign investments are dealt with as follows:

as regards *Allied companies* no tax is charged; as regards *Channel Island and Colonial investment companies* and trading companies which carried on trading operations in the place in which the central management and control was previously situate, tax is charged at the appropriate Channel Island or Colonial rate, and not at the United Kingdom rate of tax, subject to the condition that any distributions by way of dividends or interest to United Kingdom shareholders or debenture holders are charged at the United Kingdom rate.

(iv) Allied shipping concerns.

Agreements made under Section 18 of the Finance Act, 1923, for the reciprocal exemption of the shipping profits of non-resident shipping concerns are treated as still operative in relation to Allied concerns which have become temporarily resident in the United Kingdom owing to enemy occupation of the home country. Exemption is given also in such cases of temporary residence although there is at the moment no formal agreement.

3. MEMBERS OF THE FORCES.

(i) No additional assessment on service pay is made for the penultimate year of service, whether the service is terminated by reason of death or by reason of demobilisation (cf. para. 5).

(ii) Where service in the Forces is terminated by death or demobilisation and the assessment for the final year of service would have been based on the preceding year's pay if the service had not terminated, the charge of tax for that year is computed on a part of the preceding year's pay proportionate to the period of service in the final year, if that part is less than the actual pay for the period. (This concession applies as from the year 1944-45.)

(iii) Where a member of the Forces dies on active service during the war, no action is taken to recover any tax outstanding in respect of service pay except to the extent that there is pay in hand to cover the tax payable.

(iv) Persons serving in the Forces who are paid from United Kingdom Government funds are liable to United Kingdom Income Tax on their service pay irrespective of where they lived before joining the Forces and whether they are serving in the United Kingdom or abroad, but in the cases of:—

(a) members of Dominion or Colonial Forces who, because of the war, are transferred from the pay of the Dominion or Colony concerned to payment from United Kingdom funds:

(b) residents of Dominions or Colonies who, during the war, join Forces associated with their Dominion or Colony which were not, before the war, paid from United Kingdom funds;

(c) Dominion or Colonial Civil Servants who were in the pay of a Dominion or Colonial Government and are transferred to the British Forces for war purposes and become payable from United Kingdom funds; and

(d) residents of Dominions or Colonies who have been recruited into the Royal Air Force direct in their Dominion or Colony under the Empire Air Training Scheme or the Air Ministry's Overseas Recruiting Scheme;

the charge to tax in respect of their service pay is abated so as not to exceed the tax which would be charged by reference to the appropriate Dominion or Colonial taxation code.

(v) Pending a review after the war of the taxation position of all allowances paid to members of the Forces, marriage allowances, lodging allowances, family allowances, and allowances in respect of children are in general exempted from tax.

(vi) If membership of a professional society is a condition of the tenure of a taxpayer's employment, he is entitled to claim in the assessment of his remuneration from that employment a deduction for his annual subscription to the society. Where a taxpayer whose employment has been subject to such a condition has joined the Forces and during his war service continues to pay his annual subscription with a view to his ultimate return to his peacetime employment, a deduction for that subscription (if it cannot be given against pay received from his civilian employer during his service in the Forces) is allowed against his service pay.

(vii) The exemption from Income Tax given by Section 27 of the Finance Act, 1922, to payments made by the Ministry of Pensions to widows of members of the Forces in respect of their children is applied to similar payments in respect of children made to "unmarried wives." (It is applied also to similar payments in respect of children made to widows and "unmarried wives" of members of the Mercantile Marine and to widows of civilians who have died from war injuries.)

4. ALLIED MERCANTILE MARINE, ETC.

Members of the Allied Mercantile Marine who before the war were normally resident abroad and were based

on foreign ports but have come to the United Kingdom because of the war and are sailing from British ports are not charged to United Kingdom Income Tax on their pay.

Similar treatment is allowed to civilian flying personnel of Allied nationality who before the war were normally resident abroad and were based on foreign aerodromes but because of the war are based on United Kingdom aerodromes and are flying on routes between this country and abroad.

5. TRADES, EMPLOYMENTS, ETC., DISCONTINUED.

On the discontinuance of a trade, profession, vocation, office or employment, if the actual profits or income of the penultimate year exceed the amount of the assessment made for that year (on the preceding year basis), an additional assessment on the excess is by law required to be made.

This requirement is not enforced when the discontinuance of a trade, profession or vocation is due to:—

(a) the taxpayer's joining the Armed Forces or the Mercantile Marine;

(b) his joining any Civil Defence Force in a full-time capacity;

(c) his death or disablement through war operations;

(d) the destruction of his business premises by enemy action or their occupation by the enemy.

Similarly, where in circumstances indicated under (a), (b) or (c) above a person has ceased to hold an office or employment, no additional assessment is made for the penultimate year, and similar treatment has been allowed where the employment of a merchant seaman has ceased because he has been taken prisoner of war. (For the Income Tax year 1944-45 and subsequent years, this concession is no longer operative in respect of offices and employments, as the income therefrom is now chargeable on the current year basis, except in the case of members of the Forces, as to whom see para. 3 (i).)

6. REMITTANCES UNDER DEFENCE (FINANCE) REGULATIONS.

Persons whose liability to tax on income from a source abroad is limited to the amounts remitted to the United Kingdom and who are compelled under the Defence (Finance) Regulations to remit to the United Kingdom income from that source which would otherwise have been left abroad are assessed on the total remittances, but collection of tax is deferred on such amount of the compulsory remittances as is not expended or used in this country, but remains available, either in a specified bank account or in identified investments, for remittance abroad. Any part of such compulsory remittances which is remitted abroad not later than six months after the expiry of the Defence (Finance) Regulations will be treated as not having been remitted to the United Kingdom and an appropriate reduction in the assessment will then be made.

7. FARMING.

Under Section 11 of the Finance Act, 1941, and Section 28 (1) of the Finance Act, 1942, where the annual value of the land occupied does not exceed a prescribed figure farming carried on by *an individual or partnership of individuals* is charged under Schedule B and not under Schedule D. The provisions do not in terms apply to the legal personal representatives of a deceased farmer, but where the farmer had been assessable under Schedule B, assessment under Schedule B is continued for the period of administration unless the beneficiaries, if they had been in occupation of the farm during that period, would have been assessable under Schedule D. Similar treatment is given, by reference to the position of the life tenants, in the case of trusts created by will.

8. EXCEPTIONAL DEPRECIATION ALLOWANCE.

Under Section 19 of the Finance Act, 1941, an "exceptional depreciation allowance" is given in respect of buildings, machinery or plant provided for the purposes of a trade since the beginning of 1937.

Under the section the allowance in the case of *machinery and plant* may be carried forward to later years in so far as effect cannot be given to it in a particular year. The section does not provide for a similar carry-forward in the case of *buildings* but it is given in practice.

9. MANAGEMENT EXPENSES.

Under Section 33 of the Income Tax Act, 1918, life assurance companies, etc., which are charged to tax on interest, etc., by deduction or otherwise and not on profits under Case I of Schedule D are entitled to claim repayment of tax on management expenses.

Allowances for exceptional depreciation under Section 19 of the Finance Act, 1941, which would be proper in the computation of a Case I liability in respect of profits, and amounts payable for National Defence Contribution or Excess Profits Tax which would be allowable in a Case I computation, are treated as management expenses for the purposes of a claim under Section 33.

10. INSURANCE IN RESPECT OF WAR DAMAGE RISKS.

Section 12 of the Finance (No. 2) Act, 1940, prohibits the allowance for Income Tax purposes of payments made in connection with certain war damage indemnity schemes. Premiums paid under the Indian War Risks (Factories) Insurance Ordinance, 1942, fall within the prohibition, but companies carrying on business in India and, because they are controlled in the United Kingdom, liable to United Kingdom Income Tax on their Indian profits, are allowed to deduct one-half of the premiums, that being roughly the excess of the payments made in India over the payments which would have been due if the property insured had been situate in the United Kingdom and had come within the provisions of the War Damage Act, 1943 (contributions and premiums payable under which are not allowable deductions for Income Tax purposes). Similar relief is allowed for the purposes of National Defence Contribution and Excess Profits Tax.

11. PAYMENTS TO PART-TIME FIRE GUARDS.

The standard subsistence allowances paid under the Government scheme to part-time fire guards at business premises are not considered to constitute taxable remuneration. Where a part-time fire guard does duty as such outside his working hours at his place of employment and receives payment in respect of such duty at a rate greater than the standard subsistence rate applicable to his case, so much of the payment as corresponds to the standard subsistence allowance which would have been payable for the period of duty performed is excluded from assessment.

12. MINERS : ALLOWANCES IN LIEU OF FREE COAL.

Income Tax is not charged on cash payments received during the war by miners from their employers in lieu of the free coal which they have been entitled to receive by virtue of their employment.

13. CHRISTMAS PRESENTS IN KIND TO EMPLOYEES.

Christmas presents in kind given by an employer to his subordinate employees are not treated as taxable remuneration, and this treatment has been extended to the presentation of Savings Certificates or Savings Stamps in lieu of such presents.

14. SALVAGE AWARDS.

Salvage awards are payments for services rendered and are taxable as such in the hands of the recipients. Salvage awards to officers and men of a ship not specific-

ally employed on salvage work are not assessed to Income Tax if the awards are in respect of services rendered during the war.

15. TIME LIMITS.

Notice of claims to various Income Tax reliefs has, under the law, to be given within a prescribed period, usually twelve months from the end of the year of assessment to which the claim relates. When notice is not given within the prescribed period and the delay is due to war conditions, an extension of the time limit is given.

NATIONAL DEFENCE CONTRIBUTION

1. SEPARATE BUSINESSES : SET-OFF OF LOSS AGAINST PROFIT.

Where two distinct businesses which are separately assessable are carried on by one person or firm a loss sustained in one business is allowed to be set off against profits made in the other business in a coincident chargeable accounting period.

2. DIRECTOR-CONTROLLED COMPANIES : INTEREST, ETC., PAID TO WHOLE-TIME SERVICE DIRECTORS.

Under the proviso to Rule 4, Fourth Schedule, Finance Act, 1937, no deduction is allowable under the Rule in respect of any interest, annuity or other annual payment paid to a director of a director-controlled company, or in respect of any royalty or rent so paid. Payments of such interest, etc., are, however, allowed as a deduction where the director is in a position corresponding to that of an employee, and satisfies the definition of a "whole-time service director" in Rule 13 (c), Fourth Schedule, Finance Act, 1937.

3. BUSINESSES CARRIED ON BY TRUSTEES.

Under Rule 12, Fourth Schedule, Finance Act, 1937, a deduction may be claimed, in the case of a business carried on by an individual or individuals in partnership, corresponding to that which could have been allowed in respect of directors' remuneration if the business had been carried on by a director-controlled company. The Rule requires that where any such deduction is made the Contribution is to be charged at the 5 per cent. rate applicable in the case of a business carried on by a body corporate.

Businesses carried on by individuals acting as trustees, executors or administrators are not strictly within the application of this Rule, but are treated as being within its application subject to the disallowance of—

(a) any remuneration paid to the trustees, executors or administrators (other than authorised charges for professional services rendered to the business), and

(b) any remuneration paid to beneficiaries.

4. DEDUCTION OF DIRECTORS' REMUNERATION.

Rule 11, Fourth Schedule, Finance Act, 1937, limits the deduction to be allowed in computing the profits of a director-controlled company in respect of remuneration of the directors, other than whole-time service directors, and Rule 13 (c) of the Schedule defines the expression "whole-time service director" as meaning a director who is required to devote substantially the whole of his time to the service of the company in a managerial or technical capacity and is not the beneficial owner of more than 5 per cent. of the ordinary share capital.

Directors prevented from devoting substantially the whole of their time to the service of a company because they are serving with the Armed Forces, Mercantile Marine or a Civil Defence Force, are not regarded as debarred on that account from being treated as whole-time service directors.

5. DIRECTORS' REMUNERATION : TREATMENT OF SUMS RECEIVED FOR SERVICES IN TRADE OR PROFESSIONAL CAPACITY.

The expression "remuneration of the directors" in Rule 11, Fourth Schedule, Finance Act, 1937, is interpreted as meaning the whole of any remuneration payable to the directors by way of salary, fees, bonus or commission, including any remuneration for services to the company which are of a secretarial, managerial, advisory or technical character. Exceptions are, however, made corresponding to those made in connection with the interpretation of the expression "directors' remuneration" for Excess Profits Tax purposes. (See Excess Profits Tax, para. 11.)

6. EXPENDITURE ON MAINTENANCE OF PROPERTY.

Expenditure on "maintenance" within the meaning of Rule 8 (2), No. V, Schedule A, Income Tax Act, 1918, by virtue of Section 25, Finance Act, 1924, is allowed as a deduction in computing the profits of property-owning concerns.

7. MINERAL RIGHTS DUTY AND ROYALTIES WELFARE LEVY.

Mineral Rights Duty and Royalties Welfare Levy are allowed as deductions in computing profits.

8. INSURANCE COMPANIES WITH SUBSIDIARY INVESTMENT COMPANIES.

Where the shareholding in such subsidiaries forms part of the investments of the Insurance Company's Life Assurance Fund, the investments of the subsidiaries (or an appropriate proportion thereof) may be regarded as investments of the Life Assurance business of the parent company.

9. DEFERRED REPAIRS AND RENEWALS.

Relief is allowed of the same basis as for Excess Profits Tax (see Excess Profits Tax, para. 26).

DEATH DUTIES

1. MEMBERS OF DOMINION AND ALLIED FORCES.

(i) The reliefs from death duties granted by law to the estates of members of His Majesty's Forces who die while on service are applied also to the estates of members of the Allied Forces.

(ii) Property situate in this country is in general liable to death duties, irrespective of the domicile of the deceased. In the case, however, of a member of the Dominion or Allied Forces, who was not domiciled in Great Britain and came here by reason of the war, all personal property which was situate in this country at his death, other than property which he held here before his arrival or reinvestments thereof, is treated as exempt from death duties.

Similar treatment is given in the cases of (a) a Dominion or Allied merchant mariner, not domiciled in Great Britain, who before the war had sailed from a port abroad but by reason of the war sailed from a British port, and (b) a person, not domiciled in Great Britain, who came here by reason of service with a recognised welfare organisation attached to the Forces or Merchantile Marine.

2. PROPERTY TRANSFERRED TO GREAT BRITAIN FROM ABROAD BY REASON OF THE WAR.

Property situate abroad of a person who dies domiciled abroad is in general not liable to death duties.

In the following cases, where by reason of the war property situate abroad of a person not domiciled in Great Britain has been transferred to Great Britain or converted into property situate in Great Britain, the property is treated for death duty purposes as if it had continued to be situate abroad:—

(i) Consideration moneys received in respect of balances and securities abroad which have been requisitioned by the Government under the Defence (Finance) Regulations or investments earmarked as representing such consideration moneys, where the death on which those moneys or investments pass occurs not later than six months after the expiry of the Regulations;

(ii) Bearer securities moved from the Channel Islands or the Isle of Man to Great Britain for safe custody, or acquired here by persons resident in the Channel Islands or the Isle of Man and retained here temporarily for safe custody;

(iii) Bearer securities situate abroad, which have been converted under special war-time arrangements into stock registered in Great Britain, provided the deceased owned the shares at the date of conversion;

(iv) Shares of Channel Island and Malayan companies, where the share register has been established in Great Britain because of the war, or—in the case of Channel Island companies—where the company has been re-registered in Great Britain by order of the Board of Trade, provided the deceased was the owner of the shares at the date of the removal of the share register to Great Britain or the re-registration of the company in Great Britain, as the case may be. (This concession does not apply to the extent that liability for duty would have arisen if the removal of the register or the re-registration had not taken place.)

(v) Bank balances transferred to Great Britain from the Channel Islands for safe custody. (Property consisting of income which accrued in Great Britain to a person domiciled in the Channel Islands and which was held here by virtue of the Trading with the Enemy legislation is regarded as having been in effect transferred here for safe custody.)

(vi) Property brought to Great Britain by a person domiciled in the Channel Islands or in an Allied country who came here by reason of enemy occupation of his home country.

3. LOANS TO THE TREASURY FREE OF INTEREST.

Certain British Government securities are exempt from death duties so long as they are in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom.

In similar circumstances exemption is allowed in respect of moneys lent to the Treasury free of interest.

4. INTEREST ON ESTATE DUTY IN ARREAR.

Interest in respect of Estate Duty on personal or moveable property is, in general, payable as from the date of death of the deceased.

Interest may be waived, however, for a period not exceeding twelve months from the date of death, where securities fall heavily in value and difficulty is encountered in realising them in order to pay the duty.

5. TIMBER.

Where an estate passing on death comprises land on which timber is growing, death duties on the timber are not payable until it is sold, when duty is charged on the net proceeds of sale after deducting any necessary outgoings since the date of death.

Excess Profits Tax due in respect of the profits of sale is regarded as a necessary outgoing for this purpose.

6. VALUATION OF HOUSE OWNED AND OCCUPIED BY DECEASED.

The general rule of valuation of property for purposes of Estate Duty is to take the market value at the date of death.

In the case, however, of a house owned and occupied by the deceased, where a near relative of the deceased who was ordinarily resident with him at the date of death remains in the house and has no other place of residence available, any increase in the market value above the pre-war value is disregarded in so far as it could only be realised by a sale with vacant possession. The valuation made on that basis would, however, be reviewed if the house were sold or let within a reasonable period of (say) two years after the death. (This concession applies to cases which were still open on May 18, 1944, when it was announced in the House of Commons, and to later cases.)

STAMP DUTIES

1. CHEQUES.

The Stamp Act exempts from stamp duty cheques used for pay and other purposes connected with H.M. Forces. The exemption is treated in practice as extending to cheques used for the purposes of the Allied fighting forces in this country.

2. RECEIPTS.

Payment of the stamp duty of 2d. on receipts for a sum of £2 or over is not enforced in the case of receipts given by householders in respect of billeting allowances or by claimants under Part II of the War Damage

Act in respect of advances from the Assistance Board for replacement or repair of essential articles.

3. MARRIAGE LICENCES.

The duty of 10s. on marriage licences is remitted in the case of newly commissioned officers and men in H.M. Forces of limited means, where owing to war exigencies the marriage has to take place at short notice by licence and the Registrar's fees have been reduced.

4. ADMISSIONS, ETC.

The stamp duty charged on admissions and articles of clerkship connected with entry into the legal profession is remitted where as a result of the war the object of the admission or articles has been defeated. Thus the duty of £50 paid on admission to the degree of barrister-at-law is repaid if the barrister has not practised and has lost his life while serving in H.M. Forces or in full-time Civil Defence service.

5. SOLICITOR'S PRACTISING CERTIFICATE.

The stamp duty on the practising certificate required to be taken out annually by a solicitor is remitted if for the whole of the year to which the Certificate relates the solicitor has been serving in H.M. Forces or the Civil Defence services and has taken no active part in his profession. If these conditions have applied for a part of the year a proportionate part of the duty is remitted.

LAW

Legal Notes

EXECUTORSHIP LAW AND TRUSTS

Revived Will—Subsequent codicil—Wills Act, 1837, Section 22.

By Section 22 of the Wills Act, 1837, no will or codicil, or any part thereof, which is revoked, shall be revived except by its re-execution or by a codicil executed as provided by the Act, and showing an intention to revive. In *Re Mardon* (1944, 2 All E.R. 397), Barnard, J., held that, in the circumstances of the particular case, a codicil to a revoked will revived part of the revoked will, although the testatrix did not know that the will had been revoked, having forgotten the existence of later wills. She had executed three wills, in 1934, 1935, and 1939 respectively. All three contained a revocation clause, and were retained by the testatrix's solicitor. In 1940, a relative of hers, acting on her express instructions, drafted a codicil to her first will, altering the main portions of that will. It did not, however, confirm that will in all other respects nor did it cancel the revocation clause. That codicil was executed in 1941. It was held that the words in the codicil showed an intention to revive the first will with the exception of two clauses, and that, with that exception, the will of 1934, the codicil, and the 1939 will should be admitted to probate.

Bequest of "all other contents of my home or at the bank."

In *Re Abbott* (1944, 2 All E.R. 457), the Court of Appeal had to construe the testatrix's home-made will. After making specific bequests and disposing of her clothes, she directed: "All other contents of my home or at the bank to be sold and the proceeds to be divided equally between" three named charities. There was no gift of residue. The Court of Appeal held that the direction to sell did not exclude cash from the gift, although, of course, it could not be sold. The words could not, however, be given an extended meaning so as to include "all my property." There was no evidence in the will that the testatrix intended to dispose of all her possessions. It was held, further, that the gift did not include choses in action, even though the certificates thereof were in the home, or at the bank. The Master of the

Rolls, rejecting the argument that a presumption against intestacy should prevail, said that that was a dangerous line of thought. Testators as a class were highly capricious. Some deliberately died intestate; others deliberately died intestate save as to certain items.

INSOLVENCY

Receiver and manager—How far liable for rates.

In *Gyton v. Palmour* (65 T.L.R. 80), the Court of Appeal affirmed a decision of a metropolitan magistrate, that in the circumstances of the case, Mr. J. G. Palmour, a Chartered Accountant, was not liable for the rates of a company of which he had been appointed receiver and manager, because he was never in occupation of the premises in respect of which rates were demanded. The company carried on the business of owning and letting flats and chambers. They reserved the control of the entrances, staircases and lifts; rents included rates, and a sum for services and amenities. Up to February 26, 1940, the company was entered in the rate-book as the occupier of the premises. On that date, Mr. Palmour was appointed receiver and manager for debenture-holders, and was entered in the rate-book as the rated occupier of the premises. He received no notice of this entry, and accordingly entered no appeal against it. On March 7, 1940, he ceased to act as receiver and manager under the appointment above-mentioned, and by an order of the Court he was appointed receiver and manager of all the company's property and assets except uncalled capital. The order contained no direction on the company to deliver possession of any of the property or assets of which Mr. Palmour was appointed receiver and manager. The rates due up to March 31, 1940, were admitted by the receiver as preferential debts due to the borough council. The appellant, a collector of rates, on the authority of the council, preferred a complaint before the magistrate, against the receiver, that he, being the person duly rated and assessed by a general rate made on April 1, 1940, in the sum of £924 which had been lawfully demanded, had not paid the

same. The magistrate found that from April 1, 1940, to August 20, 1940, when the properties were sold, the rates remained unpaid for seven days after the complaint was made. He held, however, that he was bound by previous authority to hold that the receiver had never been in rateable occupation.

MISCELLANEOUS

Criminal liability of corporations—Intention of servants to defraud company.

There is authority for the proposition that a company can be indicted for the criminal acts of its agents. The liability depends upon the nature of the charge, the relative position of the agent, and other circumstances. This question has arisen in several prosecutions for offences against emergency legislation. In *Moore v. I Bresler, Ltd.* (1944, 2 All E.R. 515) the secretary of the company, who was also the general manager and sales manager of its Nottingham branch, sold certain of the

company's goods; this he did with the object of defrauding the company. Both the secretary (who alone kept the accounts) and the general manager made certain returns in respect of purchase tax on the sales which were false in material particulars and made with intent to deceive, contrary to the Finance (No. 2) Act, 1940, Section 35. The company and the two officers were charged with the appropriate offences. The company was convicted, but on appeal to Quarter Sessions, the convictions were discharged on the ground that the sales were not made by the officers of the company as its agents or with its authority, but in fraud of the company. The Divisional Court held that the officers were acting within the scope of their employment in making the sales and returns, and that the fact that they were made with intent to defraud the company did not render the officers any the less the agents of the company acting with authority. Knowledge and intention must therefore be imputed to the company, which was rightly convicted.

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the wartime enactments and Orders which most concern the accountant. The fifty-fourth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ACTS

Liabilities (War-Time Adjustment) Act, 1944.

The liabilities adjustment procedure is made applicable to debts in respect of which a moratorium has been granted under the Defence (Evacuated Areas) Regulations. The Lord Chancellor may by order extend this provision to additional areas. A number of amendments are made in the Liabilities (War-Time Adjustment) Act, 1941.

(See ACCOUNTANCY, September, 1942, page 217.)

Ministry of National Insurance Act, 1944.

A Ministry of National Insurance is established, to which are transferred the functions hitherto exercised by other Ministries in respect of national health, pensions and unemployment insurance, and unemployment assistance. The new Ministry will be responsible for the initiation and administration of the schemes of social security outlined in the recent White Papers.

(See ACCOUNTANCY, December, 1944, page 45, and this issue, page 67.)

ORDERS

EXPORTS

No. 1262. *Export of Goods (Control) (No. 2) Order, 1944.*

A number of countries are removed from the list of destinations to which the export of all goods is controlled. Some commodities are removed from the Schedule, with the effect that they may be sent without an export licence except to countries still included in the list. Preparations of codeine and codeine salts are added to the Schedule. Power to modify or revoke coal export certificates is given to the Ministry of Fuel and Power.

(See ACCOUNTANCY, July, 1944, page 210.)

FINANCE

No. 1184. *Regulation of Payments (Belgian Monetary Area) Order, 1944.*

Transfers may be made between sterling accounts in United Kingdom banks of persons resident in Belgium,

Luxembourg, Belgian Congo, and the Mandated Territory of Ruanda Urundi. Goods exported to any of these territories are to be paid for in Belgian, Luxembourg or Congolese francs, or in sterling obtained from an account of a person resident in the area.

No. 1185. *Defence (Finance) (Definition of Sterling Area) (No. 2) Order, 1944.*

The sterling area now comprises the British Empire (excluding Canada and Newfoundland); mandated territories and protectorates; Egypt, the Anglo-Egyptian Sudan and Iraq; Iceland and the Faroe Islands.

(See ACCOUNTANCY, April, 1944, page 143, and October, 1944, page 19.)

No. 1269. *Capital Issues Exemption Order, 1944.*

The exemption from control of issues not exceeding £10,000 does not apply to companies incorporated on or after December 1, 1944, and the Treasury is empowered to withdraw the exemption from any person.

(See ACCOUNTANCY, July, 1941, page 183.)

LIABILITIES (WAR-TIME ADJUSTMENT)

No. 1208/L.44. *Liabilities (War-Time Adjustment) Rules, 1944.*

Revised rules of procedure and forms are prescribed under the Liabilities (War-Time Adjustment) Act, 1941, as amended by the 1944 Act.

(See above under Accts.)

LIMITATION OF SUPPLIES

No. 1177. *Limitation of Supplies (Miscellaneous) (No. 24) Order, 1944.*

Persons registered under Class 13 may supply an additional quantity of children's indoor games and toys.

No. 1326. *Limitation of Supplies (Heating Apparatus).*

Order made by the Board of Trade.

The Limitation of Supplies (Heating Apparatus) (No. 4) Order, 1944, is revoked from December 1, 1944. The restrictions thereby imposed on the supply of electric and gas heating apparatus are accordingly removed.

(See ACCOUNTANCY, September, 1944, page 251.)

PUBLIC UTILITY UNDERTAKINGS

No. 1299. *Accounts General Direction and Order, 1944.*

The Minister of Fuel and Power has revoked the Order of 1942 which prohibited the disclosure of accounts, etc., of statutory undertakings for the supply of gas and electricity.

(See ACCOUNTANCY, July, 1942, page 180, and December, 1943, page 59.)

TRADING WITH THE ENEMY

No. 1123. *Order in Council amending the Defence (Trading with the Enemy) Regulations, 1940.*

All the provisions of the Trading with the Enemy Act and Orders will continue to apply to areas under enemy sovereignty, even after they are occupied by Allied forces, until the Board of Trade otherwise orders.

No. 1179. *Italy. General Licence.*

Written communication is permitted on business matters with persons in occupied areas of Italy. This does not apply to the supply or obtaining of goods or the payment or transmission of money, etc.

No. 1306. *Trading with the Enemy (Specified Areas) Revocation Order, 1944.*

The Orders of 1940 and 1941, under which Monaco, Yugoslavia and the mainland of Greece were to be treated as enemy territory, are revoked.

Nos. 1104, 1193, 1305. *Trading with the Enemy (Specified Persons) (Amendment) Orders, 1944, Nos. 12, 13, 14.*

Further alterations are made in the list of persons deemed to be enemies.

(See ACCOUNTANCY, October, 1944, page 20.)

WAR DAMAGE

No. 1121. *Defence (War Damage Act Amendment) Regulations, 1944.*

The Board of Trade may extend the term of insurance policies issued under Part II of the War Damage Act. No. 1122. *War Damage (Business Scheme) (Extension of Insurance and Premium) Order, 1944.*

Business scheme policies expiring on September 30, 1944, are continued in force till December 31, 1944. For policies issued during these three months the premium was one-twelfth per cent., with a minimum of 5s.

No. 1298. *War Damage (Private Chattels Scheme) (Extension of Insurance and Premium) Order, 1944.*

Private chattels scheme policies expiring between November 22, 1944, and April 30, 1945, are continued in force till the latter date. New policies issued within this period will also expire on April 30, 1945. The premium is $\frac{1}{4}$ per cent. for the first £2,000, $\frac{1}{8}$ per cent. for the next £1,000, and $\frac{1}{4}$ per cent. for the next £7,000, with a minimum premium of 5s.

No. 1171. *War Damage (Rentcharges) Regulations, 1944.*

An owner of a rentcharge over property in respect of which a value payment is to be made must make a claim on the prescribed form to establish his right to receive part of that payment. He must also notify other persons interested, and the Land Registry if the rentcharge is registered.

(See ACCOUNTANCY, October, 1944, page 20.)

Society of Incorporated Accountants

WOMEN EMPLOYED IN PRACTISING ACCOUNTANTS' OFFICES

The Accountants' Committee has been notified by the Ministry of Labour and National Service that it has now been decided not to withdraw from the offices of practising accountants any women registered under the Registration for Employment Order who come within the following categories:

- (a) women born between January 1, 1911, and August 30, 1915; and
- (b) women audit clerks and pivotal workers born between August 31, 1915, and December 31, 1921.

DISTRICT SOCIETIES

BIRMINGHAM

The following meetings will be held at the Law Library, Temple Street, Birmingham, at 6 p.m. : 1945.

- Jan. 18. Auditing and General Commercial Knowledge. Quiz based on past examination papers, with discussion.
- Feb. 1. Five-minute papers by Students on matters of common interest.
- Feb. 15. "Students' Examination Problems in Economics." by Mr. A. E. Shenfield, Lecturer in Economics, Birmingham University.
- Mar. 1. Costing : with general discussion. Details to be announced later.

DEVON AND CORNWALL

Mr. John Bedford will speak on "The War Damage Act and the Town and Country Planning Act" at an informal luncheon meeting to be held on January 9, 1945, at 12.45 p.m., at Goodbody's Café, Moor Park House, Plymouth. Guests of members will be welcome.

PERSONAL NOTES

Mr. A. P. Walker, A.S.A.A., Deputy City Treasurer of Stoke-on-Trent, has been appointed City Treasurer, with effect from March, 1945.

Mr. Fred W. Picken, Incorporated Accountant, practising as Harcourt, Picken and Co., at Whitehall Chambers, 23, Colmore Row, Birmingham, announces that he has taken into partnership his chief clerk, Mr. Ernest Platt, and his son, Mr. Stanley F. Picken. The practice will be continued under the same name as heretofore.

Mr. G. H. Taylor, Incorporated Accountant, has been admitted a partner in the firm of Messrs. Gough and Wright, practising at 267 and 268, Castle Street, Dudley, and elsewhere.

Mr. Reginald L. Tayler announces that the practice of Messrs. Reginald L. Tayler and Co., Incorporated Accountants, has been amalgamated with that of Messrs. Hounsfeld and Co., Chartered Accountants. The style of the new firm will be Reginald L. Tayler, Hounsfeld and Co., and the combined practices will be carried on at Coventry House, South Place, Moorgate, London, E.C., and at 10, Station Parade, London, S.W.12.

REMOVAL

Messrs. C. V. Miles and Co. announce a change of address to 23, Edward Terrace, Cardiff.

OBITUARY

OSMAN WOODWARD DAVIES

We record with regret the death on November 30 of Mr. Osman W. Davies, F.S.A.A., senior partner of Messrs. O. W. Davies, Mumford and Co., Incorporated Accountants, Kidderminster. Mr. Davies was sixty years of age, and had been a member of the Society of Incorporated Accountants since 1906. He served his articles with the late Mr. W. A. Tolley, Incorporated Accountant, at Kidderminster, and after a few years in London he returned to the town to become a partner in Messrs. Johnstone, Davies and Co. On the outbreak of war in 1914, Mr. Davies enlisted in the Warwickshire Regiment, with whom he served in France, and obtained a commission. He subsequently became keenly interested in the British Legion, and during the present war served as a Home Guard officer as long as his health permitted.

Mr. Davies was elected to the Kidderminster Council in 1930, and became an alderman in 1939. He served on all the chief committees of the Council, of several of which he was chairman. He was also chairman of the War Charities Fund, the Y.M.C.A. canteen, and the Citizens' Advice Bureau, and vice-chairman of the governors of King Charles I School. He was keenly interested in cricket and sculling, and was a prominent Freemason and Rotarian.

The funeral at the Parish Church was attended by a large congregation, including the Mayor and other members of the Council, borough officials, and representatives of Messrs. O. W. Davies, Mumford and Co., and of many local organisations.